



Comprehensive Financial Plan

The following section summarizes the comprehensive financial plan which served as the cornerstone for the financial action plan and capital and operating budget decision-making. It includes long-range forecasts of revenues and expenditures, issues, trends, resource choices for all funds, and debt management program.



	<u>Page</u>
Comprehensive Financial Plan Overview	80
Forecast Methodology	83
Forecast and Major Revenue Assumptions.....	84
Economic Outlook	88
General Fund	90
Transit Fund	92
Transportation Funds	94
Enterprise Funds	
Water/Wastewater Fund	96
Sanitation Fund.....	98
Golf Fund.....	100
Rio Salado and Community Facilities District Funds.....	102
Financial Action Plan	104



Introduction

The Comprehensive Financial Plan, first published in March 1991, is a vital component of Tempe's financial management strategy. Its purpose is to provide a five-year perspective on the financial condition of each of the City's major appropriated funds. As a planning tool for short-term budgetary decisions, the Plan gives us insight into the long-term implications of today's policy choices.

Study Approach

As part of this study, the Management and Budget Section within Financial Services has established financial models that examine the City's appropriated operating funds and their underlying revenue and expenditure structures for the period of fiscal year 2001-2002 through fiscal year 2005-06.

Forecast models are presented along with trends, forecasts, and fund balances for each of the major funds.

Operating funds examined include the:

- General Fund
- Transportation Fund
- Transit Fund
- Water/Wastewater Fund
- Sanitation Fund
- Golf Fund
- Rio Salado Fund

Major Study Findings

Highlights of the major findings and conclusions from the long-range financial study follow:

(A) The City continues to have strong fund balances and reserves. This is best depicted by the following:

- The City's unrestricted fund balance in the

General Fund totaled \$38.6 million as of June 30, 2000. This balance represents 31.1% of FY 1999-01 total General Fund revenue (25% is the working guideline used by the City as an optimum fund balance level).

- Self-insurance reserve of \$9.4 million (considered adequately protected from potential liability claims).
- Restricted debt service reserves of \$7.6 million, sufficient to absorb debt obligations over the next five years.
- Water/Wastewater fund balance of \$56.4 million provides necessary coverage for operating and capital expenses and critical strategic flexibility over the next several years.
- The City enjoys bond ratings of:
"AAA" --Fitch,
"AA+" --Standard and Poor's
"Aa1" --Moody's

(B) Revenue growth and operating surpluses in the General Fund have allowed the City to address high priority needs in public safety, information technology, development and community services. Annual operating surpluses, in the General Fund, are expected to decrease over the next five years as the economy enters a period of predicted slower growth, affecting economic-sensitive revenue sources (such as the sales tax).

(C) The successful transit tax proposal in September 1996, increasing the sales and use tax rate by one half of one percent should provide sufficient revenue for transit purposes through the end of the forecast period. It should be noted that Light-Rail operating impacts are planned to occur in FY 2006-07, which is beyond the five year horizon of this report.

(D) Our projection is for continued reductions

in our percentage share of state revenues for transportation from the Highway User Revenue Fund (HURF) and the state Lottery as Tempe's share of statewide population falls. This factor, combined with expenditure growth, may produce a deficit condition in the Transportation Funds in future years.

(E) The Water/Wastewater Fund may require further rate increases over the next five years to meet the fiscal impact of water/wastewater compliance and sewer capacity demands. These costs are driven primarily by federally mandated modifications at the 91st Avenue Wastewater Treatment Plant, increased sewage processing capacity, along with compliance required improvements.

In the near term, we expect rate adjustments to occur in the wastewater operation, utilizing a phased-in approach to bring wastewater into full cost recovery and to ensure that all customers are charged equitably based on discharge volume and strengths. In November 1999, sewer rates were increased for residential, commercial and industrial customers as part of a planned three year phased-in rate increase to bring sewer customers closer to full cost recovery.

(F) Continued close monitoring of the Sanitation and Golf Enterprise Fund operations will be required, which may include the possibility of rate adjustments to avoid operating deficits and to maintain adequate reserves for capital needs and contingencies.



The following financial overview provides a summary of revenues, expenditures, and historical budget trends.

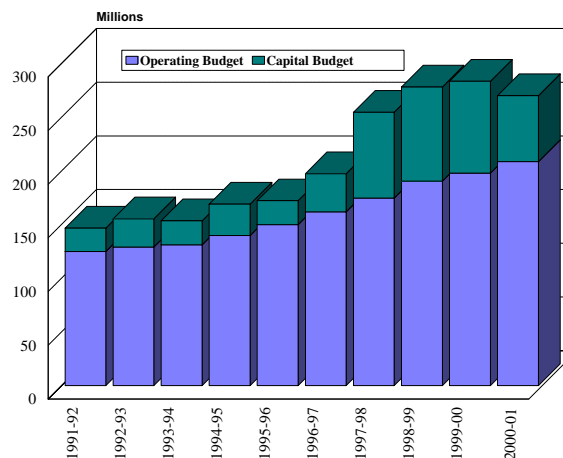
The FY 2000-01 total budget of \$270.1 million provides for a \$208.8 million operating budget and a \$61.3 million capital budget. The operating budget includes \$117.7 million of general governmental operations, \$49.9 million of enterprise operations (water/wastewater, sanitation, and golf) and \$41.2 million of special revenue operations (transportation, transit, redevelopment, and housing).

Major funding sources include \$86.0 million in local taxes (sales and property), \$34.6 million of intergovernmental revenues, \$53.3 million of enterprise revenues, and \$49.5 million of special revenues (Transit, Highway User, Lottery, Community Development Block Grant and Section 8 Housing).

Total budgeted revenues for FY 2000-01 are \$270.1 million, with operating revenues of \$242.4 million and the remainder from bond proceeds and other CIP funding. General Governmental revenues combine for \$139.5 million of the total operating revenues, including \$49.5 million of special revenues. Enterprise revenues represent the remainder of total operating revenues, most of which derives from water/wastewater service charges and user fees.

Summary overviews of FY 2000-01 appropriations and revenues provide a base reference for the fund specific forecast models that follow. A ten year history of budget trends is depicted in the following graphs.

Ten Year Budget Trends



Fiscal Year	Operating Budget	Capital Budget	Total Budget
2000-01	\$222,169,282	\$67,408,152	\$289,577,434
1999-00	197,926,204	85,587,326	283,513,530
1998-99	190,459,638	87,651,929	278,111,567
1997-98	174,865,699	79,717,004	254,582,703
1996-97	162,042,739	35,466,698	197,509,437
1995-96	150,047,736	22,192,124	172,239,860
1994-95	139,929,485	29,283,757	169,213,242
1993-94	131,123,501	22,357,612	153,481,113
1992-93	129,172,994	26,199,719	155,372,713
1991-92	124,937,849	21,825,485	146,763,334



Forecasting as used in this report refers to the estimating of the future values of revenues and expenditures. It provides an estimate of how much revenue will be available and the resources required to meet current service levels and programs over the forecast period, along with an understanding of how the total financial program will be affected by the demographic and economic factors driving these forecasts. The value of forecasts is in estimating whether, given assumptions about local financial policies and economic trends, the City will have sufficient resources to meet the resource requirements of ongoing, planned, or mandated programs. Forecast models have the added value of providing a planning tool for capital projects and/or whether bonded indebtedness will be required for capital funding. In short, forecasting provides an estimate of the financial flexibility of the City, as well as insight into tax, revenue, and service options the Council must address.

Our forecasting methodology reflects a combination of internal analysis and locally generated consensus forecasts covering such factors as population growth, retail sales, and inflation. Specifically, for the revenue forecasts, we begin with models that include prior year actual collections and project the balance of the current fiscal year based on prior year patterns. For the remaining years of the revenue forecast, we look to consensus forecasts (such as the Bank One Arizona Blue Chip Forecast, Western Blue Chip Economic Forecast, and AZB/Arizona Business published by the ASU College of Business) for an indication of the expected trends in key economic and demographic indicators. Typically, these forecasts cover the state or the metro-Phoenix area as a whole, so adjustments to reflect unique conditions in Tempe are sometimes necessary. In general, we seek to match revenue sources with the economic and/or demographic variables that most directly affect year-to-year changes in those revenues. For example, a revenue such as the city sales tax will reflect consensus forecasts related to

taxable sales growth; whereas, revenue from building permits and plan review will be tied to the expected trends in development and redevelopment. Other revenues, such as those from recreation services, are linked to Tempe's expected population growth. By identifying and utilizing as many revenue-related variables as possible in our forecast, we hope to minimize the risks of overstating or understating revenues that could arise from using only a few variables to forecast all revenue sources.

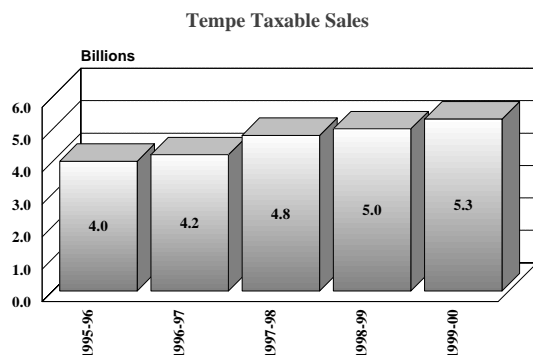
For expenditures, growth is most closely linked to two major factors: 1) inflation (including general inflation, market adjustments to salaries, and changes in benefits costs), and 2) City financial policies related to the amount of new funding added each year for new programs and/or the expansion of existing programs (including new funding associated with Capital Improvement Program projects). As with our revenue forecasts, we consider consensus forecasts related to general inflation (particularly the trends projected). For certain expenditure categories (such as fuel and utilities), we apply inflation factors that reflect the historical rate of price inflation in these categories relative to overall inflation. Amounts for new programs and/or program expansions are assumed to be constant over the forecast period (same amount is added to each year of the forecast).



Our approach to forecasting, in general, is to apply a conservative philosophy that will produce our long-term goal of not overstating revenues nor understating expenditures. We recognize that economic forecasting is not an exact science and at times relies upon the best professional judgement of the forecaster. To reduce the risks of miscalculating revenues or expenditures, we attempt to identify as many factors as possible that may contribute to changes in revenues and expenditures. The City's revenue and expenditure budgets are comprised of many unique elements that respond to a variety of external factors such as population growth, development, inflation, and interest rates. The following provides our assumptions relating to major revenues and expenditures.

■ *Tempe Taxable Sales*

Taxable sales in Tempe have increased an average of \$256 million each year over the past five years, indicative of continued development in Tempe and the strong local economy. As the table below shows, taxable sales are \$1.3 billion (33%) higher in FY 1999-00 than total taxable sales in FY 1995-96.

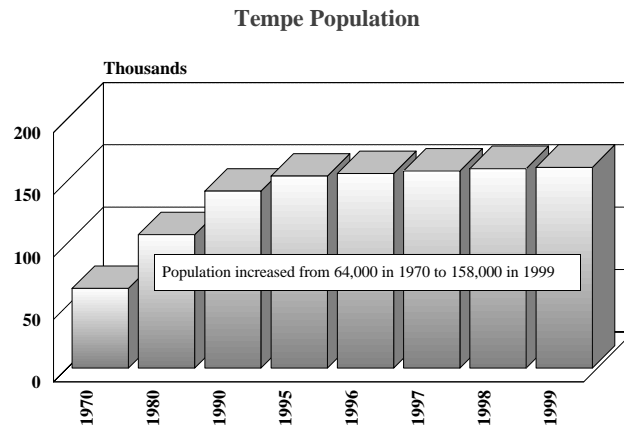


In the forecast, General Fund retail sales are expected to increase by 5.1% in FY 2000-01, with the level of growth gradually slowing over the period of the forecast, with 3.6% annual growth being the norm in the later years of the forecast. This declining rate of growth is based on the predictions of economists for an expected economic downturn over the next 2-3 years.

This level of expected growth covers all forms of sales that generate sales tax revenue for the City. The primary categories of sales (based on FY 1999-00 annual averages) are retail sales (52%), commercial and residential rent (17%), utility sales (9%), restaurant sales (7%), and building materials sales (7%). Construction sales are expected to decline sooner than retail and other sales as a slowdown in construction typically precedes an overall economic downturn.

■ *Population*

Population in Tempe is assumed to increase by 1.08% in FY 2000-01, with the rate of growth gradually declining over the forecast period to 1.01% annual growth by FY 2005-06. State population growth is assumed to average 2.7% per year over the next five years.

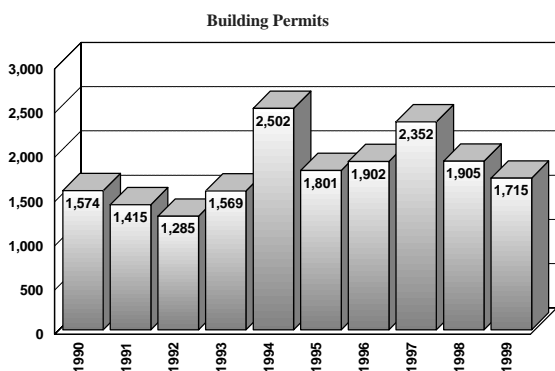


Following the strong population growth period of the late 1970's (5.3%) and the 1980's (2.8%), Tempe is expected to experience steady but slower population growth as land use approaches build out. To a large extent the revenue growth of the 70's and 80's was fueled by the City's population growth. Continued population growth statewide and in Maricopa County in particular has been credited for much of the increased state revenues during the latest economic expansion. While Tempe is now seeing the benefit of statewide population growth through increased state-shared revenue, our slower pace of growth relative to other cities could produce a smaller

share of the statewide pool of funds after the 2000 Census. That decline will affect our FY 2001-02 revenues. Our long-range revenue forecasts reflect these economic assumptions and the estimated impact of the 2000 census.

■ **Development/Redevelopment**

New housing and commercial starts (construction activity) are expected to decline to a moderate level of activity as the City's undeveloped land approaches build-out. Building permit activity for 2001 should decline, after the 1997 peak during this latest construction cycle. While we expect redevelopment efforts to sustain some level of construction activity, we have conservatively assumed a level of growth equivalent to the projected rate of population growth.



■ **State-Shared Revenue**

For purposes of the forecast, we have assumed that State law related to shared revenue distributions will remain unchanged.

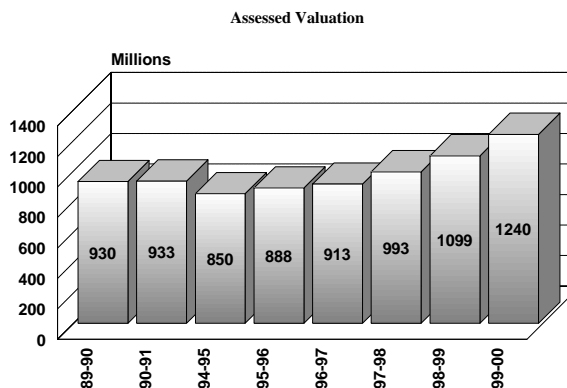
Recent tax cuts enacted by the state Legislature have contained provisions holding cities and towns harmless from potential reductions in state-shared revenues, although action in the 1998 legislative session to further reduce the state income tax did not contain a hold harmless provision, meaning that locally-distributed funds will bear a proportionate share of the expected revenue reduction. This latest state income tax cut will affect FY 2000-01 revenues and could result in a \$275,000 reduction in state-shared revenues for Tempe. The forecast reflects this potential loss in FY 2000-01 and its impact on subsequent years.

The temptation to tap the state-shared revenues may persist over the next five years. Therefore our assumption that state revenue distribution formulas will not change may prove to be overly optimistic as the state is faced with the task of balancing its budget.

■ **Assessed Valuation**

Throughout the 1980's, Tempe experienced growth in net secondary assessed valuations. In 1990 this trend began to slow, and in 1991 net secondary assessed valuations increased by only 0.3%. From 1991 through FY 1994-95, Tempe experienced a decline in assessed valuation resulting from a countywide decrease in assessed valuations reflective of the general decline in the real estate market and a methodological change from a "cost" to an "incomes" approach by the county assessor for valuing commercial real estate.

In FY 1999-00, Tempe's secondary assessed valuation was up by 12.9%, following 10.6%



growth the prior year. Consistent with the City's Debt Management Plan, the forecast assumes a 9.3% annual increase in assessed valuation in FY 2000-01, with assessed value growth gradually slowing over the period of the forecast to 3.50% by FY 2005-06. In November 1999, the Maricopa County Assessor's Office implemented a two-year cycle of valuations of residential, vacant land, and agricultural properties. This will cause a freeze on property valuations and incur a fiscal impact of approximately \$227,000 to the City of Tempe in FY 2002-03.

■ ***Interest Rates/Cash Balances***

Interest revenue is expected to increase modestly in most funds, while yields tied primarily to short-term government interest rates are expected to average 5.5% for FY 2000-01 and declining to 5.0% in FY 2005-06. Some planned, short-term drawdowns of cash balances may occur periodically over the period of the forecast, reducing interest earnings.



■ *Salaries and Wages*

On the expenditure side, we have assumed a salary and wage market adjustment of 3.5% in FY 2000-01 and in all subsequent years through FY 2005-06. Any planning for the next several years must address the issue of compensation because of its significant expenditure impact. For example, every one percent change in compensation has an estimated expenditure impact of \$700,000 to the General Fund and another \$150,000 to the Enterprise Funds. It is obvious that whatever policy decision is made with regard to compensation scenarios will have a profound effect on future decision-making options.

■ *Fringe Benefits*

Health insurance costs continue to rise at a range of 12-15% annually. Market forces, the movement towards managed care, and an excellent claims history had contained the growth in the City's health care costs for a time, but we are now seeing a resumption of growth in excess of general inflation, much of which is derived from higher claims costs.

Our expectation is that health care costs will rise at a rate exceeding the overall Consumer Price Index. Historically, annual growth in the health care component of the metro-Phoenix CPI has been nearly 50% above annual growth in the overall CPI. Retiree health care cost will continue to rise as our work force matures and greater percentages of employees retire.

■ *Inflation (Consumer Price Index)*

Inflation is expected to increase by 3.75% in FY 2000-01, growing to 4.00% annually for the later years of the forecast. For those areas where exceptions are anticipated, we have factored in higher inflation impacts specific to those costs. One unknown cost that may prove to be understated is the cost of fuel, which may undergo significant price fluctuations over the period of these projections.

■ *Supplemental Limits*

For the period of the forecast, we have assumed that recurring General Fund

supplemental funding will be limited to \$750,000 for FY 2000-01 and declining to \$500,000 in FY 2005-06 ("supplemental" refers to additional funding for new initiatives, Council priorities, and other new funding).

■ *Capital Improvement Program Operating Budget Impacts*

An important aspect of the City's Capital Improvement Program is the identification of operating budget impacts associated with capital projects. Over the period of the forecast, we estimate that CIP projects will add \$750,000 in annual recurring costs to the General Fund until FY 2004-05 and then decreases to \$500,000 in FY 2005-06. Along with the supplemental limit, a limit for new funding associated with CIP projects will be evaluated annually.

■ *State Expenditure Limitation*

The City's FY 2000-01 total financial program is estimated at \$270.1 million, including capital improvements. In May 1996, Tempe citizens approved a budget override to the state imposed expenditure limitation, allowing the City to permanently adjust its FY 1979-80 base budget. The City's base expenditure level of \$29,579,379 established in FY 79-80 increased by \$15 million to \$44,579,379 in FY 1996-97. The new expenditure limitation in FY 2000-01 is \$161,592,142, with allowable exclusions totaling \$128 million.

At the time of the latest voter-approved expenditure limitation adjustment, the City estimated that the new base budget adjustment would be sufficient for 10 years, barring the addition of any major programs. The expanded Transit program, added as a result of the 1996 Transit tax ballot measure, is such a program. Our new estimates show we will have sufficient expenditure limit authority through FY 2003-04. The plan is to seek a similar permanent base adjustment (as was approved in 1996) during the May 2002 General City election to cover expenditures associated with recently budgeted projects and programs.

Economic Outlook

Following the mild recession in mid 1990 to

1991, both the local and state economies have enjoyed a prolonged robust period. The metropolitan Phoenix area has been among the nation's leading major metropolitan areas in population and job growth, factors that have undoubtedly benefited Tempe. Tempe's economy, along with those of other Phoenix area cities have also become stronger through increased diversification.

In 1993 Arizona's and Tempe's economic growth accelerated, driven largely by a surge in construction and later joined by growth in other sectors. Construction, however, appears to have peaked during this cycle and will likely decline during the next few fiscal years.

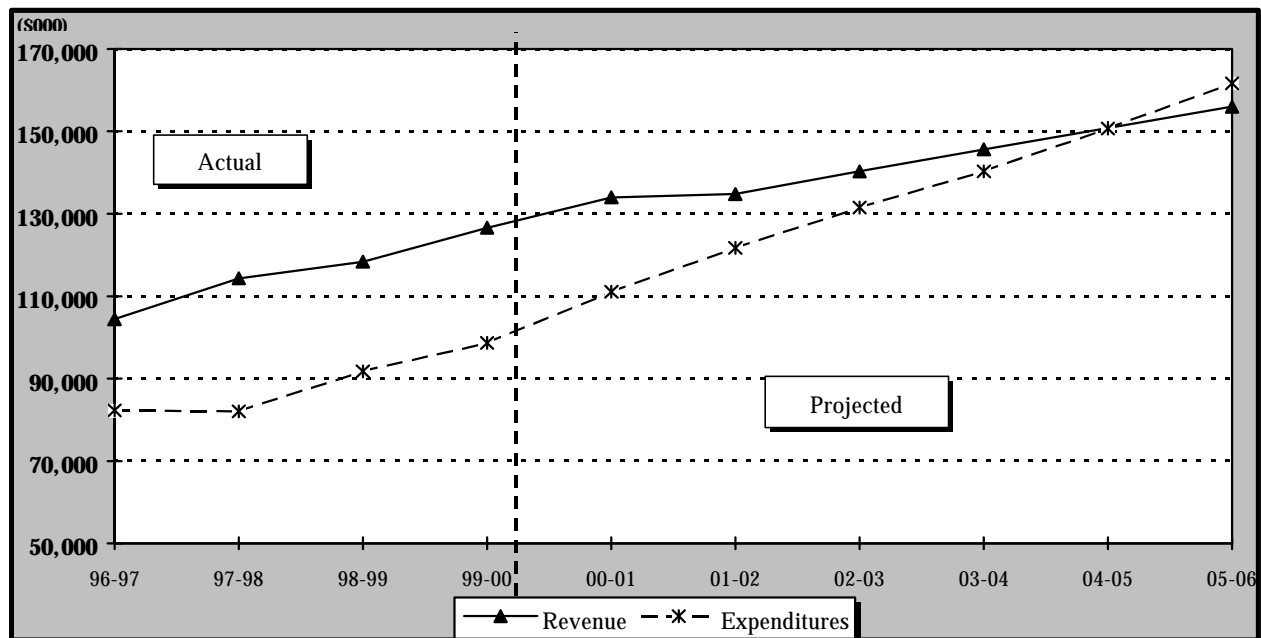
The outlook is for economic growth to continue for the next year or two, but at gradually slowing rates. The consensus among state economic forecasters is for continuing moderate growth in the Arizona economy for the year 2001 and a mild downturn thereafter.

The duration of the economic expansion may largely be a function of Federal Reserve policy, inflation, and the rate of economic growth. Due to the relatively low cost of living and moderate tax burden, the Arizona economy should continue to do well, even with a slow-down in the economy. It is predicted that Arizona's performance relative to other states will continue to be favorable.



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General Fund: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
Local Taxes	57,195	64,014	64,682	68,567	73,941	78,079	81,649	85,293	88,846	92,387
Intergovernmental	26,670	29,026	32,625	36,055	38,251	35,119	37,093	38,726	40,308	41,841
Bldg & Trades/Plan & Zoning	3,693	4,119	2,738	2,958	3,142	3,013	2,893	2,786	2,691	2,605
Cultural and Recreation	3,508	3,762	3,915	4,204	3,852	3,894	3,933	3,973	4,012	4,053
Fines, Fees and Forfeitures	3,269	3,700	4,440	4,778	4,683	4,733	4,781	4,829	4,878	4,927
Business Licenses	937	947	1,100	605	971	971	971	971	971	971
Interest Income	5,217	5,764	5,596	5,940	6,000	5,500	5,500	5,500	5,500	5,500
Franchise Fees	1,019	1,368	1,221	1,281	1,136	1,209	1,273	1,339	1,403	1,466
Other Revenue Sources	2,957	1,630	2,022	2,246	2,038	2,253	2,253	2,253	2,253	2,253
Total Revenue	104,463	114,331	118,338	126,635	134,013	134,770	140,345	145,668	150,861	156,002
Expenditures (\$000)										
Personal Services	61,704	64,646	71,247	79,005	87,472	95,067	102,184	109,366	117,982	127,109
Materials and Supplies	5,250	5,543	5,955	6,324	6,484	6,867	7,275	7,697	8,151	8,623
Fees and Services	11,597	14,013	15,477	15,268	18,161	19,086	20,056	21,039	22,072	23,124
Travel and Training	750	729	903	955	992	1,041	1,092	1,144	1,199	1,255
Non-Dept/Contributions	1,829	2,039	2,009	2,330	2,200	3,943	5,335	5,605	5,890	6,183
Capital Outlay	3,703	2,478	2,396	2,687	2,595	2,732	2,876	3,020	3,171	3,324
Loan Repayment	268	268	268	268	268	268	268	268	268	268
Trans Maintenance of Effort	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Internal Services/Adj.	(4,654)	(9,533)	(8,341)	(10,063)	(8,932)	(9,176)	(9,417)	(9,635)	(9,856)	(10,054)
Total Expenditures	82,297	82,031	91,763	98,625	111,089	121,676	131,518	140,354	150,726	161,680
Designated for Capital Projects	22,165	32,300	26,575	28,009	22,925	13,094	8,827	5,314	135	0
Net Operating Deficit	0	0	0	0	0	0	0	0	0	(5,678)



Trend/Forecast

In the early 1990's the City experienced declining annual surpluses as expenditure growth exceeded revenue growth by as much as 5%-6% per year. In response to this situation, the City invoked three years of spending reductions to slow the rate of expenditure growth. The success of the expenditure reduction strategy alone was limited, however, because it coincided with a slow-down of the national and regional economy.

The outlook for the General Fund improved dramatically in 1993 with voter approval of an increase in the sales tax rate from 1.0% to 1.2%. The sales tax increase was projected to add \$5 to \$6 million each year and keep the General Fund fiscally sound. That expectation has been confirmed, while improvements in retail sales and commercial development have also bolstered General Fund revenue.

Annual operating surpluses should decline, however, as revenue growth slows as a result of a predicted downturn in the economy over the next 2-3 years. In addition, our share of locally-distributed state income, sales and vehicle license tax revenues are projected to decline in FY 2001-02 as the 2000 Census shows Tempe's expected declining percentage of statewide population. Our forecast is for operating surpluses to decline such that an operating deficit within the forecast period appears in FY 2005-06. In the assumptions related to future revenue and expenditure growth, it appears that over the long-term, the current economic growth trend is not sustainable and thus leads to operating deficits within this forecast horizon.

An important caveat to our projections concerns the issue of state-shared revenues, which has come under attack in recent years and may in the future. Income and vehicle license tax reductions enacted at the state level in recent years have been mitigated in part by a strong state economy and population growth. In addition, the state has recently assumed

significant responsibilities for funding the capital costs of local school districts and alternative fuel vehicles. Our concern as a local government is how the state will balance its budget when the economy inevitably slows. Close monitoring of the Legislature's efforts to alter the distribution formulas for state-shared revenues or to enact laws that may narrow the local tax base will be required.

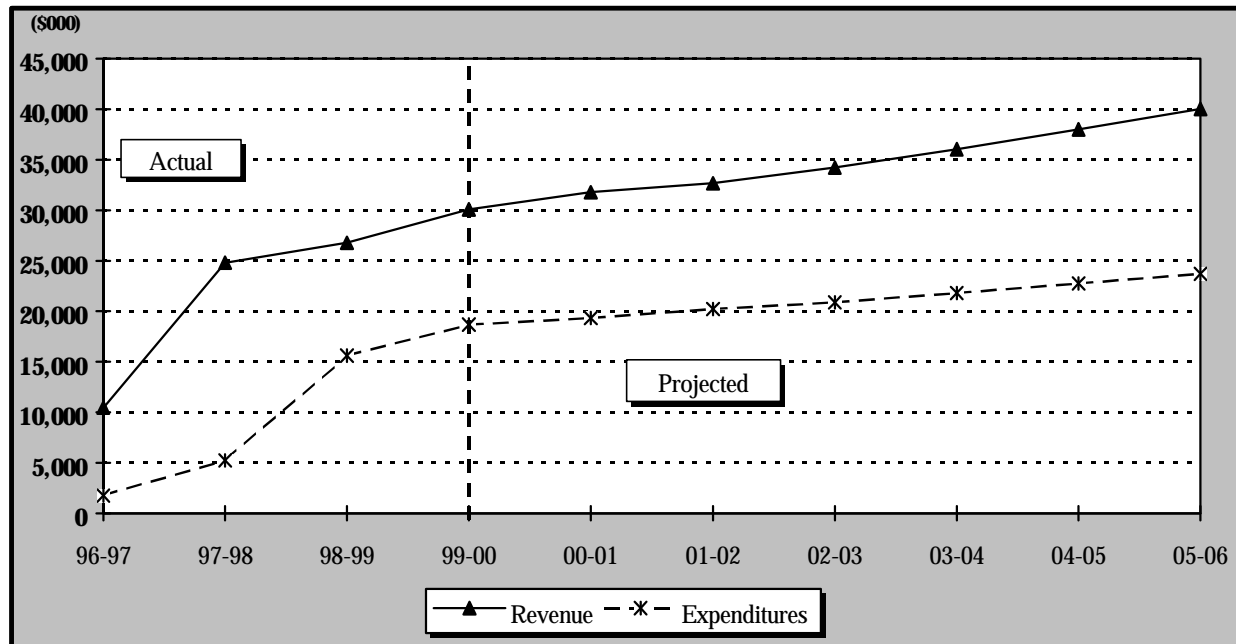
Policy choices made now regarding annual supplemental limits will have a significant impact on the long-term condition of the General Fund. The forecast assumes that new, recurring funding will be limited to \$750,000 for FY 2001-02 and will decline to \$500,000 in FY 2005-06. The operating budget impact of capital projects are estimated to average \$750,000 in FY 2001-02 and will also decline to \$500,000 in FY 2005-06.

Fund Balance

The General Fund's unreserved fund balance has grown from \$23.2 million just six years ago to \$38.6 million for FYE 2000. Over the next several years, we anticipate some drawdown of fund balances primarily for "pay-as-you-go" capital financing, bringing the General Fund balances in line with the financial policy of 25% of General Fund revenues.

FYE	Unreserved Fund Balance
92	\$10,765,333
93	10,143,466
94	14,121,709
95	23,196,449
96	28,590,826
97	30,639,891
98	34,682,895
99	38,201,087
00	38,615,537

Transit Fund: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
Transit Tax	10,429	23,212	24,542	26,384	28,610	29,926	31,272	32,586	33,889	35,245
Lottery Transfer In	0	340	334	325	305	302	298	294	290	286
ASU-Flash Transit	0	316	532	1,407	279	279	279	279	279	279
Interest Income	0	931	1,375	1,936	2,300	1,780	1,850	2,260	2,810	3,350
Miscellaneous Revenue	11	1	4	23	290	397	509	626	748	877
Total Revenue	10,440	24,800	26,787	30,076	31,784	32,683	34,208	36,044	38,016	40,037
Expenditures (\$000)										
Personal Services	133	512	807	1,110	1,262	1,326	1,413	1,506	1,612	1,724
Materials and Supplies	12	99	60	29	21	22	22	23	24	25
Fees and Services	1,580	3,926	7,563	11,927	14,645	17,731	18,224	18,996	19,757	20,548
Travel and Training	7	23	28	53	41	28	30	30	30	30
Capital Outlay	13	95	61	170	5	50	52	54	56	58
Debt Service	0	73	6,837	4,748	2,351	0	0	0	0	0
Internal Service Charges	3	15	23	494	860	909	962	1,018	1,077	1,141
Indirect Cost Allocations	0	484	213	154	157	163	170	176	183	190
Total Expenditures	1,749	5,228	15,592	18,685	19,343	20,229	20,872	21,803	22,739	23,717
Designated for Capital Projects	101	9,680	2,975	9,272	12,441	12,454	13,335	14,241	15,277	16,319
Net Operating Surplus/ (Deficit)	8,590	9,892	8,220	2,119	0	0	0	0	0	0

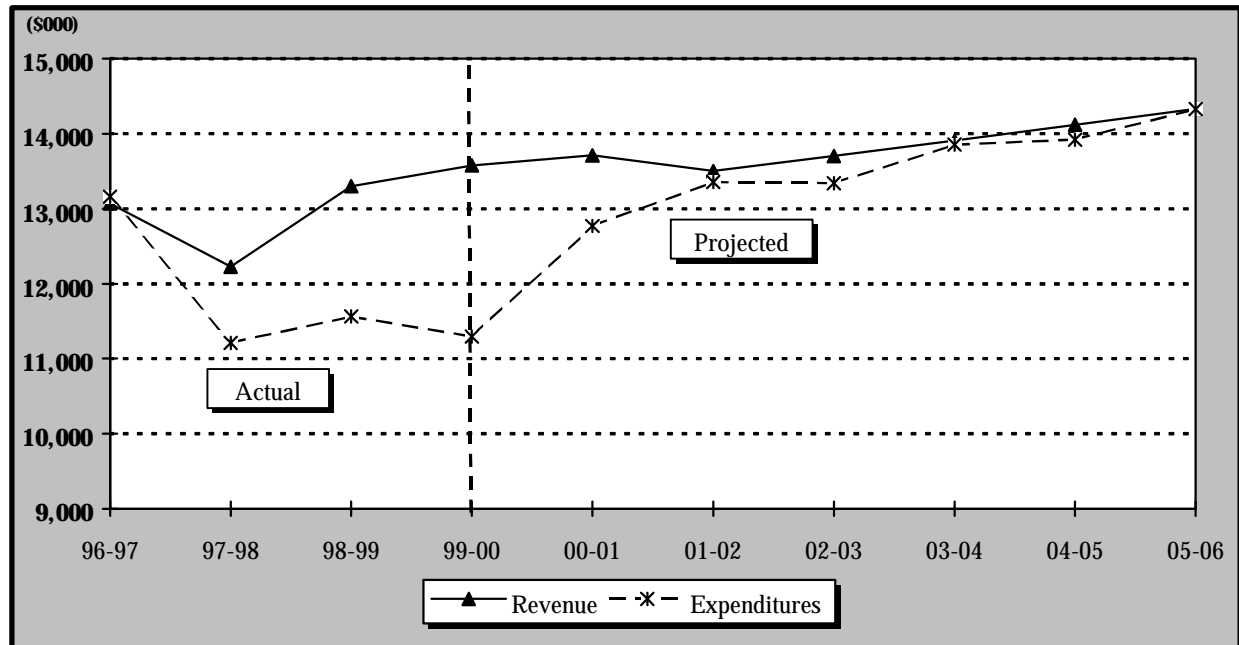
**Trend/Forecast**

Since the transit tax is a component of the overall City sales tax, the growth trend projected in General Fund sales tax revenue is mirrored here in the Transit Fund. Revenue growth is projected to slow in the later years of the forecast as the economy enters a mild downturn.

The pattern of growth reflected in the expenditure estimates relies upon the 10-Year Transit Business Plan and the assumptions made in that plan regarding the expansion of routes and the acquisition of new buses. The forecast is for planned fund surpluses in the early years due primarily to the implementation time required to expand routes. However, expenditures are expected to increase as the plan is more fully implemented. In FY 1997-98, the first full year of the transit tax, operating expenses were \$5.2 million. By the end of the forecast period, expenses are estimated to climb to \$23.7 million.

FYE	Unreserved Fund Balance
97	\$8,552,661
98	18,450,631
99	26,673,832
00	28,793,058

Transportation Funds: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
Highway User Revenue Tax	9,810	9,684	10,781	11,074	11,240	11,038	11,248	11,462	11,680	11,901
State Lottery Proceeds	1,144	1,020	1,001	976	926	914	902	890	878	867
ASU-Flash Transit	243	0	0	0	0	0	0	0	0	0
Maintenance of Effort	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850	1,850
Transfer	0	(340)	(334)	(325)	(305)	(302)	(298)	(294)	(290)	(286)
Lottery Transfer to Transit	0	(340)	(334)	(325)	(305)	(302)	(298)	(294)	(290)	(286)
Other Revenue	23	14	0	0	0	0	0	0	0	0
Total Revenue	13,070	12,228	13,299	13,575	13,710	13,500	13,702	13,908	14,118	14,332
Expenditures (\$000)										
Personal Services	2,850	2,903	3,001	3,141	3,447	3,601	3,836	4,091	4,378	4,686
Materials and Supplies	551	509	446	523	557	579	601	624	649	675
Fees and Services	1,611	1,455	1,324	1,434	1,640	1,714	1,791	1,873	1,960	2,054
Capital Outlay	291	351	369	254	546	567	589	612	636	661
Debt Service	4,726	4,534	4,603	4,000	4,300	4,500	4,000	4,000	3,500	3,300
Transit Routes/Dial-A-Ride	1,377	0	0	0	0	0	0	0	0	0
Loan Repayment	356	356	356	356	356	356	356	356	356	356
Internal Service Charges	460	473	532	609	815	846	878	913	949	987
Indirect Cost Allocations	940	630	935	978	1,108	1,194	1,287	1,386	1,493	1,608
Total Expenditures	13,162	11,211	11,565	11,295	12,770	13,356	13,338	13,855	13,920	14,326
Net Operating Surplus/ (Deficit)	(93)	1,017	1,734	2,280	940	145	364	53	198	6



Trend/Forecast

Small surpluses are expected through the forecast period, although unforeseen circumstances could easily push this fund into a deficit condition. We have already witnessed a reduction in our allocations of HURF and Lottery revenues resulting from Tempe's declining percentage of statewide population. We expect that the results of the 2000 census will further worsen the situation, contributing to the problems we are forecasting for this fund. With only small surpluses projected over the period of the forecast, limited resources will be available to address transportation capital project needs.

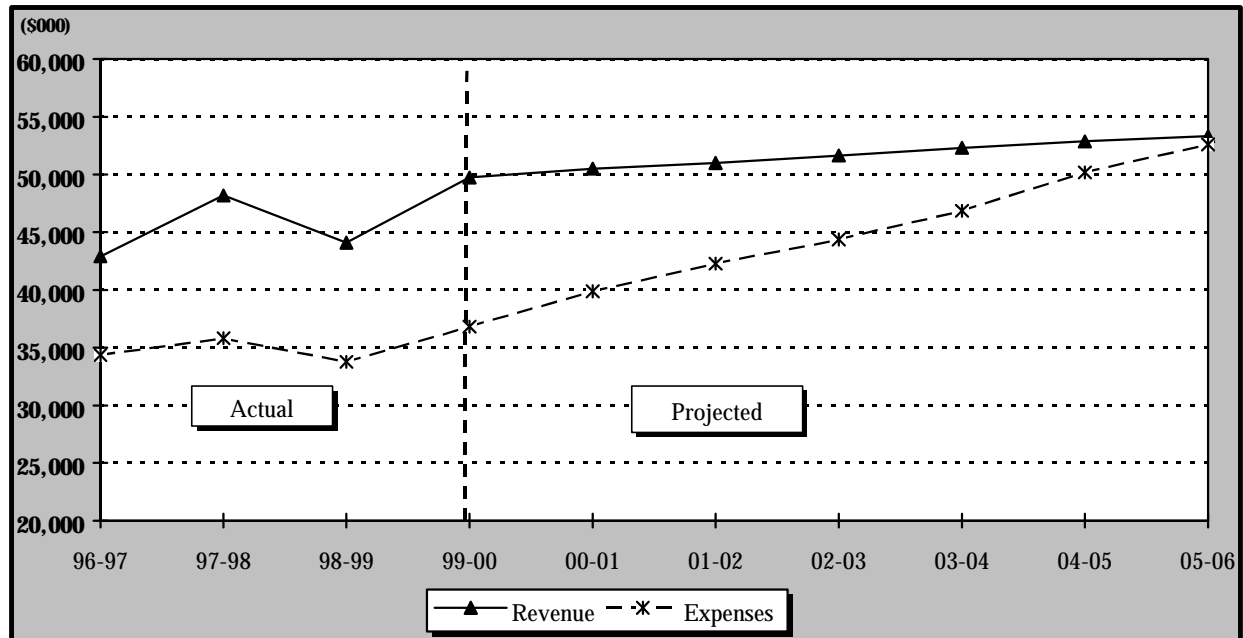
One approach now in place to minimize operating deficits is to limit debt service payments to established caps (\$4.5 million in FY 2001-02, down to \$3.3 million by FY 2005-06). Any excess General Obligation debt service requirements beyond this cap will be absorbed by the Debt Service Fund. Over the longer term, we will need to monitor the level of General Obligation tax-supported debt applied to Transportation projects and the resulting impact on the Debt Service Fund, being aware that opportunities for pay-as-you-go financing of capital projects will be limited.

Fund Balance

Transportation Fund balances have recovered somewhat from the lows experienced a few years ago. Maintaining an adequate fund balance for contingencies and transfers for capital projects will become a difficult challenge with little or no revenue growth. No relief on the expenditure side can be found as the cost of inflation and debt service requirements appear to be factors that will be with us throughout the forecast period.

FYE	Unreserved Fund Balance
93	\$1,002,647
94	2,127,532
95	3,686,673
96	3,300,576
97	3,326,715
98	4,092,879
99	5,792,212
00	7,592,808

Water/ Wastewater Fund: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
Charges for Service-Water	26,151	26,993	25,086	27,152	28,473	28,775	29,063	29,354	29,647	29,943
Charges for Service-Wastewater	13,744	16,955	15,021	17,519	17,587	17,775	17,955	18,135	18,318	18,502
Interest Income	1,990	2,697	2,912	3,727	3,300	3,300	3,490	3,670	3,770	3,720
Land and Facility Rental	498	490	490	495	500	490	490	490	490	490
Loan Repayment	413	397	380	624	624	624	624	624	624	624
Other Miscellaneous Rev.	116	665	210	213	24	24	24	25	25	25
Total Revenue	42,913	48,198	44,098	49,729	50,508	50,988	51,646	52,297	52,874	53,305
Expenses (\$000)										
Personal Services	7,024	7,031	7,332	7,623	8,402	8,665	9,234	9,847	10,540	11,283
Materials and Supplies	2,046	2,625	2,242	1,995	2,427	2,519	2,616	2,718	2,825	2,938
Fees and Services	9,153	9,063	7,714	7,890	9,834	10,276	10,750	11,238	11,704	12,197
Travel and Training	67	65	78	79	71	74	77	80	83	86
Depreciation Expense	7,960	8,021	8,143	8,605	9,294	10,037	10,840	11,708	12,644	13,656
Share of 91 st Avenue Depreciation	553	753	1,187	3,096	1,750	1,760	1,770	1,780	1,780	1,780
Debt Svc Intrst/Fiscal Agent Fees	3,909	3,835	3,751	3,831	4,052	4,636	4,508	4,605	5,276	4,989
Internal Service Charges	1,732	2,457	1,585	1,557	1,851	2,026	2,216	2,420	2,641	2,880
Indirect Cost Allocations	1,904	1,960	1,715	2,133	2,186	2,269	2,357	2,449	2,545	2,647
Total Expenses	34,349	35,810	33,749	36,809	39,866	42,262	44,367	46,844	50,038	52,456
Designated for Capital Projects	0	0	894	6,387	4,198	580	583	178	150	150
Net Operating Surplus/ (Deficit)	8,564	12,388	9,456	6,532	6,443	8,146	6,696	5,276	2,686	699



Trend/Forecast

The sewer rate increase approved by the Council in November 1999 appears to be having the intended effect of eliminating, at least in the short-term, a projected deficit condition in the Water/Wastewater Fund. The primary intent of this rate adjustment was to ensure full cost recovery in the wastewater operation. Additionally, the new rate structure is intended to equitably charge all customers based on the volume and strength of discharges. The November increase was part of the planned phased-in sewer rate increase, with the goal of achieving full cost recovery by the third year.

The need for further rate adjustments in the sewer service area will be reviewed annually. Uncertainties still exist regarding the impact of the new usage and "strength-based" rate structure on the major industrial customers. The new rate structure may have the effect of encouraging these customers to reduce discharges or at least alter the strengths of discharges, both of which could substantially reduce revenues. Such changes should produce reductions in the City's shared cost of operating the 91st Avenue facility, although those reductions may not mirror revenue losses. Thus, the long-term outlook for this fund could change substantially depending to large extent on 91st Avenue costs.

As the long range forecast predicts, the Water/ Wastewater Fund may enter a deficit condition by the end of the forecast period as the growth in treatment costs outpace revenue growth. For the purposes of the forecast, we have assumed no further rate adjustments. As more data becomes available revealing the longer term impact of the new rate structure, this assumption must be revisited. Throughout the forecast period, pay-as-you-go financing for Water/Wastewater Capital Improvements Program will continue to be utilized to help offset higher debt service costs.

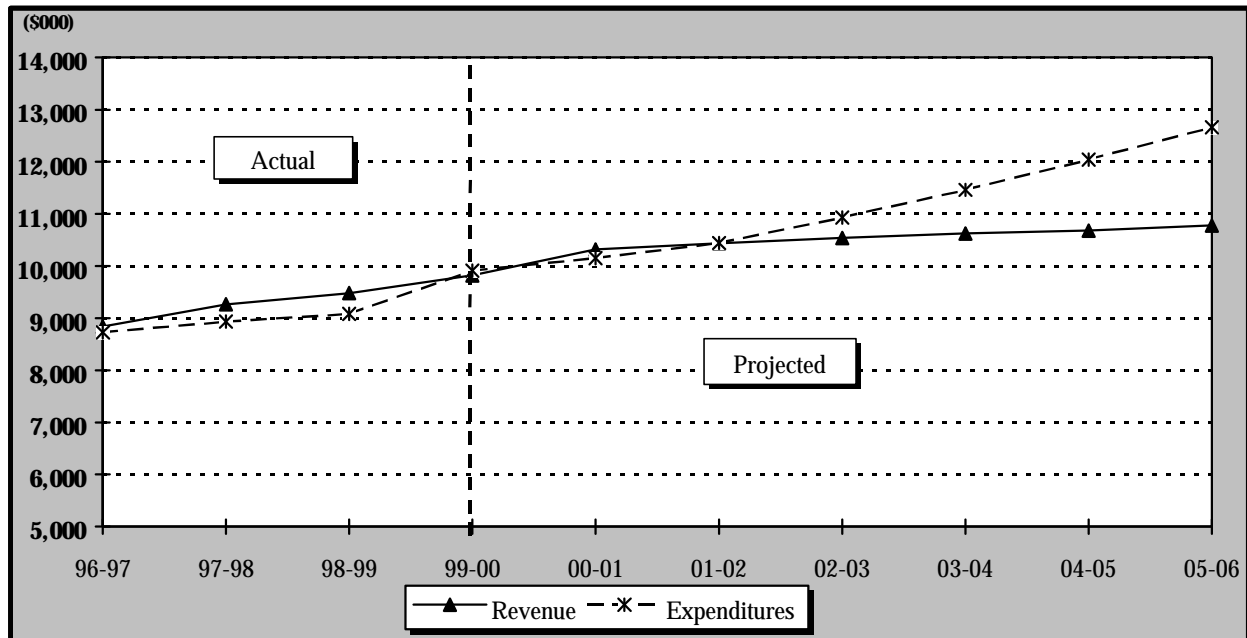
Unreserved Retained Earnings

A history of Water/Wastewater Fund balances shows the drawdown that occurred in the early 1990's as the result of pay-as-you-go financing for infrastructure improvements. To illustrate, unreserved retained earnings were \$22.9 million at FYE 90 and were drawn down as low as \$14.3 million in FYE 91, before being built back up to \$56.4 million by FYE 00.

Over the period of this forecast, healthy fund balances should be retained, notwithstanding the impact of compliance driven contingencies. With \$40.0 million in projected FY 2000-01 expenses, the \$56.4 million fund balance provides 141% coverage to operating expenses in this fund, providing a degree of flexibility likely to be required in the future.

FYE	Unreserved Retained Earnings
92	\$18,217,298
93	20,667,194
94	21,671,776
95	24,383,051
96	33,746,270
97	36,796,384
98	41,020,060
99	55,159,498
00	56,434,920

Sanitation Fund: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
Charges for Services	8,493	8,822	9,132	9,407	10,040	10,144	10,246	10,349	10,452	10,557
Sludge Disposal	143	218	223	123	210	212	214	217	219	221
Interest Income	95	123	126	100	70	79	79	57	11	0
Other Revenue Sources	107	101	0	193	0	0	0	0	0	0
Total Revenue	8,838	9,264	9,481	9,823	10,320	10,435	10,539	10,622	10,682	10,778
Expenses (\$000)										
Personal Services	2,589	2,596	2,769	3,029	3,181	3,326	3,547	3,786	4,057	4,348
Materials and Supplies	166	203	440	342	155	161	167	174	180	188
Fees and Services	2,877	2,905	2,882	2,875	2,988	3,102	3,221	3,347	3,479	3,619
Depreciation	890	897	915	1,206	1,217	1,228	1,239	1,250	1,261	1,272
Loan Repayment-Interest Only	48	42	137	137	137	16	8	0	0	0
Internal Service/Adj.	1,587	1,529	1,388	1,617	1,821	1,930	2,047	2,172	2,305	2,448
Indirect Cost Allocations	571	763	550	708	653	678	704	731	760	790
Total Expenses	8,728	8,935	9,082	9,913	10,153	10,440	10,933	11,458	12,042	12,664
Net Operating Surplus	111	329	399	(90)	167	(5)	(394)	(836)	(1,360)	(1,886)

**Trend/Forecast**

With the FY 1999-00 shortfall in this fund, sanitation rates were modified to fully recover the cost of the sanitation operation and replacement obligations. Although, an industrial, commercial, and residential rate increase was implemented in November 1999, shortfalls are still projected over the course of the forecast period (assuming no further rate increases are enacted). Unexpected increases in personal services, landfill usage charges, recycling costs, and inflation could worsen projected shortfalls in this fund beyond our estimates.

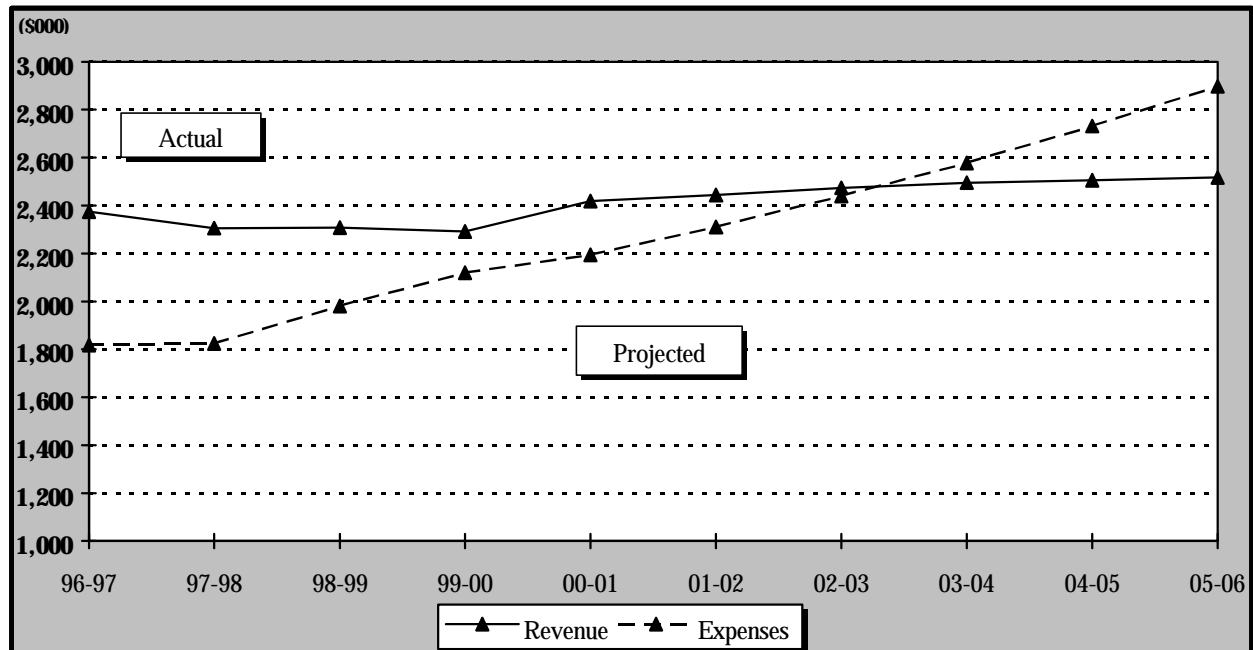
FYE	Unreserved Retained Earnings
93	\$1,672,646
94	1,442,692
95	1,542,782
96	1,135,131
97	1,623,386
98	1,979,294
99	2,168,155
00	1,162,872

Sanitation rates will be subject to annual rate reviews to ensure that the fund remains fully self-sufficient and to smooth the effect of potential rate adjustments on the City's residential and commercial customers.

Unreserved Retained Earnings

There is a \$1,162,872 fund balance in the Sanitation Fund, providing 11.5% coverage to estimated FY 2000-01 expenses of \$10.2 million. Unreserved retained earnings in this fund may be depleted by FY 2005-06 without an increase in rates. With environmental mandates always present, this enterprise operation will require as much financial flexibility as possible for contingent compliance driven costs.

Golf Fund: Projected Revenue and Expenditures



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
Greens Fees	2,068	1,990	1,982	1,942	2,183	2,207	2,229	2,252	2,274	2,297
Pro Shop and Restaurant Revenue	262	243	250	284	218	220	223	225	227	229
Interest Income	27	66	76	86	86	110	120	120	110	100
Other Revenue Sources	17	7	0	23	0	0	0	0	0	0
Transfer to Fund Youth Programs	0	0	0	(44)	(69)	(94)	(97)	(101)	(105)	(109)
Total Revenue	2,374	2,305	2,309	2,292	2,419	2,444	2,474	2,495	2,506	2,517
Expenses (\$000)										
Personal Services	826	792	790	834	911	969	1,034	1,105	1,186	1,274
Materials and Supplies	110	146	140	188	146	152	158	164	171	177
Fees and Services	305	296	396	326	373	388	403	420	438	456
Depreciation	265	279	305	354	330	347	366	387	410	435
Debt Service Interest	70	64	61	55	47	42	36	30	23	16
Internal Service Charges	116	96	102	134	155	172	191	212	234	257
Indirect Cost Allocations	126	151	187	229	233	242	251	261	271	282
Total Expenses	1,818	1,824	1,981	2,120	2,195	2,311	2,439	2,578	2,732	2,897
Net Operating Surplus/ (Deficit)	556	481	328	173	224	133	35	(83)	(226)	(380)

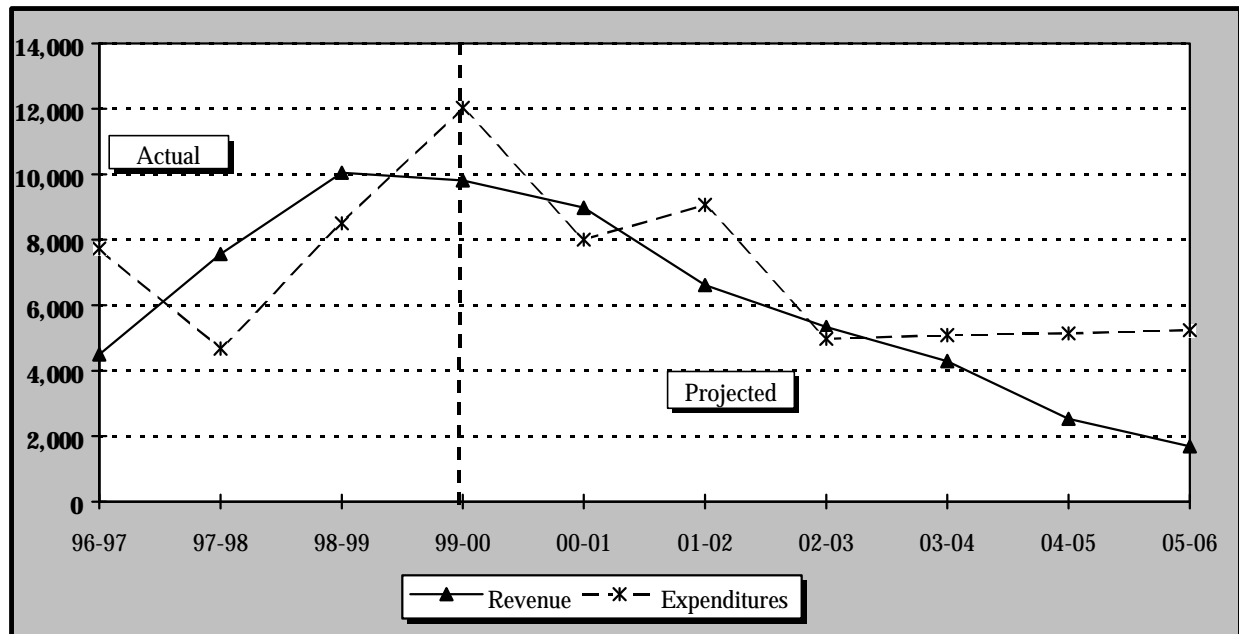
Trend/Forecast

Over the forecast period, we expect revenue growth to generally follow the historical use patterns, although other unpredictable factors such as weather conditions, may improve or worsen the revenue picture. Given our revenue assumptions, the Golf Fund could experience a deficit condition beginning in FY 2002-03, provided no rate adjustments are approved by the Council. As with the City's other self-supporting Enterprise operations, annual rate reviews will be conducted to maintain a favorable financial position in the Golf Fund.

Unreserved Retained Earnings

After six consecutive years of fund balance losses the trend was reversed, at least in the short-term, in FY 1995-96 as increased rounds of play bolstered the reserve to over \$350,000. Fiscal years 98-99 through 99-00 proved to be good years as the fund ended the FY 99-00 with a balance of \$1,538,156. This balance will provide some flexibility in funding current and future capital improvements.

FYE	Unreserved Fund Balance
91	\$346,301
92	345,712
93	139,693
94	54,780
95	50,000
96	351,158
97	896,542
98	1,397,897
99	1,806,479
00	1,538,156



	96/97	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06
Revenue (\$000)										
General Fund Allocation	4,500	7,000	8,600	7,260	7,794	5,445	3,940	2,724	935	0
Sales Tax	0	461	685	583	580	612	639	667	667	694
Transient Lodging Tax	0	63	85	109	112	124	136	150	150	165
Interest Revenue	0	42	65	473	270	240	430	550	570	540
Sale of Real Estate	0	0	0	888	0	0	0	0	0	0
Bond Forfeiture	0	0	0	300	0	0	0	0	0	0
Other Revenue	0	0	24	33	33	33	33	33	33	33
CFD Revenue	0	0	592	173	183	158	161	163	166	255
Total Revenue	4,500	7,566	10,050	9,819	8,973	6,612	5,339	4,288	2,521	1,687
Expenditures (\$000)										
Personal Services	54	104	374	540	577	608	647	689	737	789
Materials and Supplies	0	1	21	16	59	62	64	67	69	72
Fees and Services	0	95	102	176	629	653	678	704	732	761
Travel and Training	0	0	8	46	14	19	20	22	23	25
Contributions (Aircraft Noise)	0	0	123	0	0	0	0	0	0	0
Capital Outlay	24	0	6	146	0	0	0	0	0	0
Purchase of Land	3,577	0	0	0	0	0	0	0	0	0
Internal Service Charges	0	1	63	96	68	78	89	101	114	127
CFD Administrative Credit	0	0	(62)	(440)	(440)	(457)	(475)	(493)	(513)	(533)
CFD Operating and Maintenance	0	449	258	1,940	3,606	3,623	3,641	3,659	3,679	3,699
Total Expenditures	3,655	648	892	2,520	4,514	4,585	4,664	4,749	4,841	4,940
Designated for Capital Projects	4,074	4,025	7,614	9,511	3,490	4,478	303	333	300	300
Net Operating Surplus/ (Deficit)	(3,228)	2,893	1,544	(2,212)	969	(2,451)	372	(794)	(2,620)	(3,553)



Trend/Forecast

Rio Salado's single largest revenue source is the General Fund allocation (1/3 of any surplus). If the General Fund expenditures exceed revenue collections it will have a direct negative affect, and is depicted in the later years of this forecast.

The second largest revenue source, tax revenue, is highly responsive to changes in economic activity. The financial health of this fund is dependent on the nature of development in Rio Salado.

CFD revenue includes assessment collections from property owners and boat permits, concessions, and special event fees. Overall revenue is projected to decrease as next fiscal year reflects a price decrease in boat permits.

Unreserved Fund Balance

The unreserved fund balance reached a high of \$5.4 million in FY 1998-99. The variations depiction of the unreserved fund balance is due to planned drawdowns to fund capital and land purchase costs.

FYE	Unreserved Fund Balance
97	\$1,138,546
98	4,031,073
99	5,440,869
00	2,534,762



Recommended Plan of Action

Several recommendations are offered as key elements of a financial action plan, which can be implemented to meet future operating and infrastructure objectives. Many recommendations are intended to adjust expenditure growth in order to keep the rate of expenditure growth in line with anticipated revenue growth.

■ ***Expenditure Control/Supplemental Limits***

Decreasing personnel growth has the advantage of providing both near term benefits and long-term expenditure control for the City. The addition of personnel has a greater fiscal impact on a fund than any other type of budget appropriation. Any successful effort to control spending in the General Fund or any of our funds will need to be directed at slowing the growth in personnel and associated costs. For each one percent increase in staffing levels, expenditures are increased by \$600,000 to \$750,000 per year.

We recommend a continued annual evaluation of an appropriate General Fund supplemental limit, with consideration given to our long-range revenue and expenditure forecasts and how various supplemental scenarios will affect our long-term financial condition. Over the forecast period, we have assumed a \$750,000 limit for recurring General Fund supplementals.

■ ***Maintain the Current Property Tax Rate***

Given the number of unfunded Capital Improvement Program projects, the City should maintain its property tax rate at \$1.35/ \$100 of assessed value in order to provide funding for its capital program. Each \$.05 change in the property tax rate either increases or reduces the revenues by \$650,000, capable of financing \$7.5 million in projects over a 20 year period.

■ ***Modified Base Budget Plan***

Continuation of a modified base budget review program is recommended. This entails a review

of departmental base budgets, with the size of modifications linked directly to financial forecasts. Modified base budgets incorporate historical spending patterns, price adjustments, and long-range forecasts, thereby limiting budgetary growth within departments.

■ ***Continue to Limit Midyear Adjustments***

Even as the City effectively manages supplemental additions through the normal biennial budget process, there is a tendency to circumvent this process for additional midyear appropriations and personnel, often with little or no needs assessment, fiscal impact analysis or prioritization with other budgetary needs. The fiscal impact of these midyear adjustments poses a risk to careful long-range financial planning and should be discouraged except under unusual circumstances where an adjustment is warranted.

■ ***Adhere to Debt Management Plan***

Continued commitment to the Debt Management Plan is strongly recommended. Sizing the City's Capital Improvement Program budget to the Debt Management Plan will stabilize per capita outstanding tax-supported debt while lowering annual debt service costs. This will also help to preserve our sound financial standing and bond ratings. Adoption of the Debt Management Plan has been one of the most significant financial decisions over the last decade.

■ ***Comprehensive Financial Plan***

The Comprehensive Financial Plan, along with the Debt Management Plan, have served as the cornerstones of the long-term fiscal strength of the City. We recommend a continued update of this financial capacity study to provide a long-term perspective to the policy decisions of today.

■ ***Identify and Limit CIP Operating Budget Impacts***

In addition to establishing a viable supplemental limit, identifying the operating budget impact of Capital Improvement Program (CIP) projects is a significant factor in achieving control over expenditure growth. We recommend continued efforts to refine the process of identifying these

impacts and ensuring that provisions are made in operating budgets for these impacts as CIP projects are approved.

■ ***Financial Policies***

Continued adherence to our operating budget, debt service, capital expenditure and investment policies, while maintaining ample fund balances and reserves, is the best strategy the City has to ensure its sound fiscal position. These policies require periodic review to strengthen and update as necessary. The point here is to warn against "creative finance" solutions and the underlying impacts these solutions may have on the City in the longer term.

■ ***Protect State-Shared Revenues***

It is recommended that we continue our efforts in coalition with the League of Arizona Cities and Towns to protect state-shared revenues. They are very likely to continue to be at risk over the next few years. A freeze of state-shared revenues or a significant change in distribution methodologies could pose a costly financial risk to General Fund and Transportation revenues.

■ ***Economic Development/Redevelopment***

A further recommendation is to continue improving our economic development and redevelopment efforts to increase property valuation, commercial growth and job growth in the City. Effective decision-making on economic development and redevelopment will require us to evaluate the relative merits of development projects, placing emphasis on those adding the greatest value for Tempe's citizens.

■ ***Review Benefits Program***

We recommend that the City explore employee benefit options to ensure that Tempe's benefits package remains competitive with other Valley cities. On the other hand, the city must also explore alternative means of minimizing expected increases in health care costs, both employee and retiree.

■ ***Rio Salado Financial Plan***

We recommend the continuation of the Rio Salado Project Financial Plan, which addresses operating, maintenance costs and debt service requirements. The City has created a Community Facilities District, a legal entity with assessment and taxing authority, that will provide part of the financial strategy.

■ ***Transit Plan***

With voter approval of a dedicated funding source for transit and the expansion of transit services, the City has created a 10-year Transit Plan. Also, Transit has developed an extensive benchmarking program in conjunction with the Transit Advisory Committee to evaluate services and assist in long-range planning. Both the Transit Plan and the benchmarking effort are valuable tools in the City's continued expansion of transit service and should be regularly updated.

■ ***Water/Wastewater Infrastructure Costs***

Careful financial planning will be required to address the increasing capital costs associated with water infrastructure and sewage treatment, primarily at the regional 91st Avenue Plant. We recommend a financial plan that minimizes sudden spikes in rates and controls expenditure growth.

■ ***Regular Review of City Fees and Charges***

Incremental increases in City fees and charges maintain the City's ability to keep pace with inflation. The City's long-term revenue outlook should include regular review of all City fees to ensure cost recovery as allowed by Council policy.

■ ***Program Sunsetting***

We recommend that the City continue, through the budgetary process, the annual sunset review program. This program facilitates a review of all existing citywide programs, using evaluation criteria to serve as guides in considering the merits of sunseting an existing program.

■ ***Strategic Issues Program***

The Strategic Issues Program has provided a linkage between the City's budget process (resource allocation) and the long-term goals of the City. The strategic issues are periodically updated and refined, while departmental budget requests are associated with strategic issues. This gives direction to the budget process and a clearer rationale for resource allocation decisions. We recommend a continuation of this process and further reinforcement of the value in linking budget requests to strategic issues.

■ ***Benchmarking/Competitive Analysis***

We recommend that the City continue its efforts in benchmarking and competitive analysis. These activities will provide the City with opportunities to evaluate and improve service delivery while enhancing accountability to the citizens.

The challenge facing the City is to position itself to manage stability as effectively as it has managed the growth in the past. Financial flexibility, which is often facilitated during rapid revenue growth periods, must be intentionally constructed through effective decision-making when managing stability. It requires reliable projections, clear priorities, effective planning, efficient systems, and continued adherence to sound fiscal guidelines. How well we manage these challenges will go a long way toward improving basic services provided our citizens, as well as improving the quality of life in the City.